Europe needs progress in pensions

PensionsEurope's 2024-2029 policy priorities

for the new European Parliament and European Commission

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Increasing coverage, closing gaps and providing good outcomes

Funded pensions are an important part of the solution.

Europe's pension landscape is at a critical juncture. As we move towards 2029, the aging demographic, economic volatility and evolving work patterns require an updated approach to pensions. PensionsEurope advocates for resilient, inclusive, and sustainable pensions in Europe.

The EU should raise awareness of the importance of pension savings as pay-as-you-go social security pensions will not provide the same level of benefits in the future as before. Many people are unaware of how funded pensions work and their advantages. The EU should promote various means to improve information about pensions and projected retirement benefits. For that purpose, National and European tracking services can play an important part. Additionally, financial literacy is crucial.

Old age poverty is already a serious problem in many member states, especially if people do not have good access to supplementary pensions. Countries with well-developed funded pension systems also face challenges, including inequalities in gender or employment type, which lead to insufficient retirement benefit outcomes. Different policies are needed to deal with different problems. The EU should support member states in closing existing pension gaps, preventing the emergence of new ones and providing good pension outcomes for all.

Those who do not have access to occupational pensions require viable alternatives to save for retirement. Good quality personal pension products can be part of the solution. So far, the launch of the Pan-European Personal Pension Product PEPP, which aimed to provide an attractive third pillar pension product to Europeans has been a failure. A key factor contributing to this could be the absence of attractive tax incentives. The EU must investigate this issue, identify further obstacles to its development and take corrective actions.

It is important that

- ✔ Access to pensions is easy and rules and administrative requirements are simple, which then makes occupational pensions the best choice for most employees.
- ✔ For those without access to occupational pensions, personal pensions are the best option.
- ✔ Coverage of occupational pension increases with effective strategies, such as compulsory participation, autoenrollment, attractive tax incentives and improved financial literacy.
- ✔ The EU works to expand access and make personal pensions more flexible, affordable, and understandable. Exploring a bottom-up approach by looking at existing national personal pension products and fostering best practices among member states could enhance the development of funded pensions.
- ✔ The EU encourages member states to provide tax incentives for employees and employers to contribute to occupational pensions. Contribution rates need to be adequate. Tax incentives are also important for the development of personal pensions, an area that the EU should promote to member states.
- ✔ Pensions tracking systems are promoted to better inform people of their pension rights and expected benefits and, thus, enable them to take timely action.
- ✔ The EU continues its efforts in promoting financial literacy. Financial literacy not only encourages individual savings, but also ensures that citizens have easy access to unbiased, reliable information regarding their own pension situation.
- ✔ Special attention is paid to closing the gender pension gap and the reasons behind it, as well as improving pensions for non-standard workers.

Pensions are different from financial services, they really are, because

In all member states, pensions play an important part of the social security system and there, rightly, is no uniform European model of how they should be organized. The EU needs to promote different types of funded pensions as a crucial component for ensuring adequate retirement income and sustainable public finances. This is part of the EU's social pillar.

Pensions are an important component of social and labor law, which, for the major part, remain member states' competence. Social partners are often involved in setting up pension schemes and in their management. It is important that the inherent nature of pension funds is well understood and that they are treated appropriately – they are in many aspects different from other financial institutions that may be covered by the same financial market legislation. Pension funds are first and foremost social institutions "active in the financial markets", but in contrast and often detrimental to their essential qualities, they are increasingly and incorrectly framed by EU legislation as providing products sold to consumers or customers.

There needs to be a good mix and the right balance, between

European and member state policies – we need to benefit more from the Single Market

The Capital Markets Union has not developed as expected and a realistic assessment of the situation is important. The Single Market has been in place for more than 30 years and Europeans should benefit more from it. The EU must remove political and regulatory uncertainties that hinder long-term and sustainable investments by pension funds. As institutional investors, pension funds contribute significantly to the economy with long-term investments which are vital for a sustainable future and crucial cross border investments. They are agents of positive change for the EU's economic growth.

The fundamental purpose of organizing occupational pensions is to provide good pensions to the members and beneficiaries. This has important individual and societal value and should never be undermined for other reasons. This does not mean that pension funds cannot be aligned with broader societal goals. Pension funds, as long-term investors, can also actively help in financing the transition to a sustainable real economy.

European and member state legislation – both sectoral and horizontal

The IORP II Directive, which applies to many pension funds, is to be revised during the upcoming political cycle. IORP II is a minimum harmonization framework and leaves sufficient scope for the member states to adopt rules that align with their own pension system. The European pensions landscape is very diverse. For this reason, it is crucial to maintain minimum harmonization in the revised IORP II Directive. This framework also helps member states and social partners adjust to changing environments and upcoming challenges. Since the revision process will take up a significant part of the next political cycle, it is essential to ensure the new legislation remains effective for years to come. Minimum harmonization provides the flexibility needed for adaptation amidst changing circumstances.

Recent years have seen the emergence of European legislation covering all financial market institutions. This legislation deals with topics such as sustainable finance and the digital agenda. These are important legislative developments reflecting the policy priorities of the EU, which pension funds support. IORPs are social institutions and have diverse characteristics – some of them are large but many of them are small, and thereby they are different from other financial market institutions that have been mainly the focus of EU legislators. Pension funds are increasingly in the scope of horizontal legislation with delegated acts. In particular, the volume and complexity of level II delegated and implementing legislation pose a growing and disproportionate problem in terms of costs on smaller pension funds. In drafting and legislating regulations for pension funds, the principle of proportionality should be better respected, and the resulting costs and impacts have to be considered seriously.

It is important that

- ✔ In the upcoming legislative process, the IORP II Directive remains as minimum harmonization legislation so that it can adapt to the diversity of member states pension systems.
- ✔ The EU continues to develop a robust and consistent sustainable finance framework to help pension funds align with responsible investment principles. This includes the need for sub-sectoral specific Regulatory Technical Standards (RTS) within the Sustainable Finance Disclosure Regulation (SFDR), tailored to the specificities of pension funds and their different structures in member states.
- ✔ Legislation on withholding taxes is adopted ("Faster and Safer Relief of Excess Withholding Taxes") and enables pension funds and the EU economy to benefit more from cross-border investments.
- ✔ Proper impact assessments considering reasonable cost-benefit ratios and with a focus on the impact on total fixed costs are conducted before pension funds are obliged to apply new EU regulations. Pension funds must be given adequate implementation time of new rules, such as those arising from the DORA framework which will be applicable from 17 January 2025.

PENSIONS EUROPE

About PensionsEurope

PensionsEurope represents national associations of pension funds and similar institutions for workplace and other funded pensions. Some members operate purely individual pension schemes.

PensionsEurope has 25 Member Associations in 18 EU Member States and 3 other European countries.

PensionsEurope member organisations cover different types of workplace pensions for around 90 million people.

Through its Member Associations, PensionsEurope represents close to € 5 trillion of assets managed for future pension payments. Many members of PensionsEurope also cover personal pensions, which are connected with an employment relation.

PensionsEurope also has 18 Corporate and Supporter Members, which are various service providers and stakeholders that work with IORPs.

www.pensionseurope.eu
Montoyerstraat 23 rue Montoyer
B-1000 Brussel - Bruxelles